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C O N F I D E N T I A L QUITO 001669

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TREASURY FOR SGOOCH

E.O. 12958: DECL: 05/24/2016  
TAGS: [PGOV](#) [PREL](#) [EC](#)  
SUBJECT: PALACIO REPLACES TWO MINISTERS

REF: QUITO 2814

Classified By: PolOff Jarahn Hillsman, Reasons 1.4 (b&d)

¶1. (C) Summary: President Palacio on July 6 called for the resignations of all his cabinet ministers. On July 7, Palacio accepted the resignations of Minister of Economy Diego Borja -- who seems to have been the primary target of this move -- and Minister of Trade Joaquin Zevallos. Borja was replaced by Palacio's Undersecretary for Public Administration Armando Rodas Espinel, and Roberto Illingworth assumed Zevallos' position as Minister of Trade. Press reports cite Palacio's discontent with the Hydrocarbons Law implementation and disagreement between Borja and Zevallos over lifting import tariffs for this eleventh-hour cabinet change; however, political insiders allege that Palacio's wily Presidential Secretary Modesto Apolo is likely trying to better position himself to access state funds. End Summary.

Borja & Zevallos Ousted

¶2. (U) President Palacio on the evening of July 6 called for resignation letters from his entire cabinet. He reportedly received all resignations except for FM Francisco Carrion and MOD Oswald Jarrin, who are both out of the country. Palacio accepted the resignations of Minister of Economy Diego Borja and Minister of Trade Joaquin Zevallos, and on July 7 swore in Armando Rodas Espinel as Minister of Economy and Roberto Illingworth as Minister of Trade. Press reports speculate that Palacio was dissatisfied with the implementation of the Hydrocarbons Law, and that in the wake of the Oxy decision, possible suspension of ATPDEA, and breakdown of FTA talks, was particularly unhappy with Borja's performance. Palacio's office reported that for the moment the other ministers will remain in their positions.

Private Explanation for Borja's Departure

¶3. (C) Our government contacts report that Borja was already under political pressure before proposing changes to the Regulation of the Hydrocarbons Law (septel). Expoflor, Ecuador's largest association of flower growers, filed a criminal lawsuit against Borja for fraud early last month. Two weeks ago, Apolo tried to have Rodas appointed as Minister of Economy to replace Borja. (Comment: We have heard rumors Apolo wanted to allow Rodas to issue \$300 million in new sovereign debt with associated kickbacks to himself and his boss. End comment.)

¶4. (C) Zevallos and Borja have publicly disagreed on the mechanisms to subsidize Ecuadorian exporters that will lose trade preferences under ATPDEA later this year. Zevallos proposed lifting import tariffs on more than 400 products, while Borja preferred a more conservative list of products that included only equipment and raw materials to improve productivity over the long term. The straw that broke the camel's back was probably the disagreement between Energy Minister Rodriguez and Borja over the terms of the Regulation of the Hydrocarbons Law, with Borja preferring revisions to the regulation, while Rodriguez advocated changes in individual contracts with energy companies.

¶5. (U) In assuming the position of Minister of Economy, Rodas pledged to maintain financial and macroeconomic stability, specifically to keep inflation in line and encourage GDP growth. With respect to the energy sector, Rodas said his goal will be efficiently investing the additional hydrocarbons resources in refining capacity, hydroelectricity, and development. He hopes to restart trade negotiations and plans to revise the recently released economic plan.

#### Biographical Information

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¶6. (U) Armando Jose Rodas Espinel was born in Quito on May 22, 1966. As a Fulbright student, he received a master's degree in economic policy development from the University of Illinois- Urbana Campaign in 1995. He received his undergraduate economics degree from Quito's Catholic University. Rodas, General Undersecretary of Public Administration, served as Vice Minister of Economy under former Minister of Economy Magdalena Barreiro, and worked previously under Barreiro's predecessor, Rafael Correa. He was involved in the December 2005 bond issue involving Venezuela (reftel). Apart from the public sector, he has also worked in management and finance for ASEINCO, Seguros Integral, Moore Stephens-Profile, Banco Popular, and the Maquipucuna Ecological Foundation, and was a member of the Board of Directors at Seguros Oriente and the Association of Ecuadorian Ecotourism.

¶7. (U) Roberto Illingworth Cabanilla served as president of the Inter-American Commercial Arbitration Commission since ¶2001. Previous positions include professor at the Law School at Guayaquil's Catholic University, Permanent Executive Secretary of the Andean Business Consultation Council, and

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Executive Secretary of the Andean Group's Confederation of Chambers of Commerce. He received a law degree from Guayaquil's Catholic University in 1982.

Comment

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¶8. (C) Replacing Borja with six months to go will only further reduce investor confidence in Ecuador. Financial press cites Borja as critical to securing multilateral aid and keeping current spending in line, especially given additional revenues this year expected to be generated from the Hydrocarbons Law reform and seizure of Occidental's oilfields. Borja had sought to stay on by appearing to protect the public purse through his battles with the Ministries of Energy and Trade, but we believe he too had sticky fingers.

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